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TAGS: [PREL](#) [ECON](#) [PGOV](#) [SNAR](#) [PA](#)
SUBJECT: MIXED REVIEWS OF LUGO AT THE ONE YEAR MARK

Classified By: Ambassador Liliana Ayalde; reasons 1.4 (b) and (d).

SUMMARY

¶1. (C) President Fernando Lugo had several successes in his first year in office, including improvements in health care and an improved deal from Brazil regarding electricity from the Itaipu dam. However, Lugo's failings (increased insecurity, slow response to the financial crisis, lack of agrarian or judicial reform, and perceptions of increased corruption) outnumber successes, mostly due to his weak management style, lack of political party support, and poor choice of inexperienced and corrupt advisors. While Lugo appears to resist pressure to move to either the extreme ideological left or right, his slow-moving government scores points with no one and must react to a constant drumbeat of criticism from political actors and the press. Lugo's foreign policy has likewise kept us guessing: He keeps the United States close while maintaining open ties to Paraguay's "neighbors" including Bolivia and Venezuela, but is not afraid to speak his mind if he disagrees with any of his apparent allies. By simply surviving his first year in office, Lugo has proven some of his early critics wrong. In spite of paternity scandals and policy blunders, he maintains a 50 percent-plus approval rating. However, Lugo's time for "learning curve" excuses has expired. Now he will have to start governing and delivering results. END SUMMARY.

LUGO SUCCESSES

¶2. (C) President Fernando Lugo had several successes in his first year in office, including improvements in health care and an improved deal from Brazil regarding electricity generated by the bi-national Itaipu dam. Health Minister Esperanza Martinez is widely viewed as Lugo's best minister. Martinez put into place a program to provide free health care to all Paraguayans, which has been widely acclaimed. A highly accomplished technocrat, Martinez also got high marks for Paraguay's response to the dengue fever and H1N1 outbreaks. Likewise, Paraguayans across the board recognize that Lugo did something that none of his predecessors could in getting a better deal from Brazil on Itaipu. The increased price for electricity, Paraguay's ability to sell its surplus on the open market in Brazil, and the transmission line that Brazil will construct in Paraguay constitute a major victory for Paraguay, particularly given Paraguay's ingrained inferiority complex with respect to its larger neighbor. (NOTE: So far, this is a success on paper since both the Paraguayan and Brazilian congresses must approve the deal. END NOTE). While security issues and

police corruption remain top citizen concerns, many also credit Interior Minister Filizzola with important police reforms to date. Faced with a budget steeped in secrecy for years, Minister Filizzola began spending significant resources in the heretofore neglected National Police. The Ministry purchased 260 new vehicles, began significant investment in the "911" emergency system, and began to digitize its radio communication equipment. The Ministry also focused on anti-corruption; it released 21 police officers from service and has 73 open investigations against police officials.

13. (C) Lugo has also had some recent successes in reaching out to other political players and the private sector. In Lugo's first few months in office, he made little effort at political negotiation or dialogue. After a few hard political knocks which resulted from his failure to build consensus, Lugo is now meeting more regularly with Congressional leaders and the private sector. Lugo insiders reported that the cabinet met infrequently in Lugo's first six months in office; several ministers have told the Ambassador (and Lugo has confirmed this) that they are now meeting regularly and debating policy issues without excessive infighting. While Lugo refused August 14 to sign a basic "democratic pact" proposal drafted by Senate President Carizzosa and signed by the major political parties, his staff indicates that he will sign, with modifications.

LUGO'S CHALLENGES

14. (C) On the other side of the balance sheet, Lugo's failings are many. There is increased insecurity and the perception of increased corruption in the past year. As Lugo's administration works to unravel the Colorado Party structure from government, power vacuums allow other, new actors to move in to take advantage of weak or non-existent controls in the system. (NOTE: Many believe that some of Lugo's closest advisors, ministers, or family members are some of these new actors. Most do not believe that Lugo is personally involved in any corrupt activities, but that he does not have the capacity to control it. END NOTE). For example, customs revenues are down as compared to President Duarte's last year in office, and the perception is that corruption across the board is worse than under the Colorados. (NOTE: Ambassador has discussed corruption in customs with President Lugo; he recognizes the problem but has not taken any action. END NOTE). Lugo's government has been slow in responding to the financial crisis, and has been unable to deliver any progress on two key campaign promises: agrarian or judicial reform. (COMMENT: At this writing, changes are afoot for the Supreme Court (septel). END COMMENT).

15. (C) Lugo is his own worst enemy as many of his problems are primarily attributed to his own management style (or lack thereof), his lack of political party support, and his poor choice of inexperienced and corrupt advisors. Lugo's experience as a Catholic bishop has not served him well as president. He patiently listens to all but does not take final policy decisions. Lugo often holds meetings without including his ministers, leaving nobody to execute his policy. His ministers are hesitant to act without express direction from the president, and his chief of staff does not seem to play the traditional role. Likewise, without a political party of his own, Lugo does not have the infrastructure to support his policies, particularly in Congress, where the Liberal Party (the biggest in his coalition) waffles back and forth on a weekly basis about whether it supports Lugo. Lugo also remains at odds with his Liberal Party Vice President Federico Franco. Additionally, Lugo is surrounded by a group of questionable advisors, many of whom he has known for years. At best, they are inexperienced and driven by their own self-interests; at worst they are corrupt and manipulative. However, because Lugo trusts few people, he appears to be hesitant to replace any of the persons in his inner circle, perhaps preferring

the devil he knows to the devil he doesn't.

A SHAKY CENTER LINE, LOTS OF STALEMATE

¶6. (C) While Lugo appears to resist pressure to move to either the extreme ideological left or right, his slow-moving government scores points with no one. Some of Lugo's closest advisors are from the "romantic" left, and regularly push him to implement policies that are not in step with the times. Lugo's attempts to implement an agricultural subsidy program in the San Pedro Department, his alleged blessing of a leftist political party's use of military barracks for a conference, and his advisors' attempts to ban the use of all pesticides, for example, generated several political storms which Lugo himself had to undo. Likewise, Liberal Party actors close to Lugo tug him in the opposite direction, urging him to implement more conservative policies that might not be palatable with his more radical, leftist base. Lugo's early attempts at both agrarian and judicial reform failed, leading to stalemate on both issues, and to great dissatisfaction from the campesino left. In order to pacify them, Lugo occasionally shares the political stage with radical campesino leaders like Elvio Benitez. One Lugo insider told Pol/Econ Chief August 19 "not to worry" about Lugo's meetings with Benitez, who is only "one more" campesino leader with whom Lugo occasionally meets. The insider said Lugo almost enjoys the ideological push-and-pull, openly laughing at his leftist advisors when they suggested he decline to meet with "the empire's congressional leaders" in the form of Codel Price. (NOTE: Lugo in fact received the delegation August 20. END NOTE). Lugo's rhetoric in the past week has focused on a "participative democratic model" involving both social movements and political parties, which Lugo asserts is consistent with the Paraguayan constitution's provisions for a "representative and participative democracy."

¶7. (C) Lugo's political blunders generate a constant drumbeat of criticism from political actors and the press. Politicians complain that Lugo has failed to negotiate or dialogue, particularly with Congress. His lack of decisiveness produces a political vacuum in which policy decisions are neither made nor executed. While Lugo narrowly avoided impeachment charges this year, many believe that political actors (most likely UNACE or the Colorados) are waiting for Lugo to make a big mistake that could serve as grounds for impeachment sometime in the next four years. In addition to political actors, the press lies in wait on a daily basis to exaggerate Lugo's missteps. Leading daily newspaper ABC Color is openly anti-Lugo (and anti-Chavez, anti-Morales, etc.).

PRAGMATIC FOREIGN POLICY TO DATE

¶8. (C) Lugo's foreign policy has sometimes kept us guessing: He keeps Chile and the United States (privately) close while also maintaining open ties to Paraguay's "neighbors" including Bolivia and Venezuela. Pragmatism still seems to be the defining characteristic of his foreign policy to this point. Lugo understands he needs support from the international community, and particularly the United States. He seems to understand the importance of development assistance and tells us that he wants to maintain close ties to the United States and attract increased investment. (COMMENT: The Lugo government's handling of the Crescent Oil dispute sends mixed messages in this regard. Lugo himself claims not to understand the dispute. END COMMENT). However, Lugo steers his own path and speaks his mind when/if he disagrees with any of his allies. He has criticized the USG on Cuba and recently distanced himself from Venezuelan President Chavez following the closure of Venezuelan radio stations. (NOTE: Lugo's criticism of Chavez earned him several reprimands via written messages and phone calls from Chavez advisors. END NOTE). Both Lugo and Foreign Minister

Lacognata have said that the United States' bilateral military relationship with Colombia is for those two countries to decide, although there is speculation that Venezuela and others will be successful in pressuring Paraguay to "join them" in opposing a U.S. military presence in Colombia.

COMMENT: TIME TO SHOW REAL RESULTS

19. (C) By simply surviving his first year in office, Lugo has already proven some of his early critics wrong. In spite of paternity scandals and numerous policy blunders, he maintains a 50 percent-plus approval rating. However, Lugo's general policy direction continues to be a mystery. Contrary to predictions from conservative political actors, Lugo has not proven to be a radical leftist of the Bolivarian persuasion; none of his policies reflect that orientation. Instead, he has been moderate across the board. But he does lean left and is compelled to play to his "home" San Pedro campesino audience from time to time. Over the past year, many (including this Embassy) have tried to empathize with this inexperienced president facing significant challenges. Now, with a year in office behind him, Lugo's time for "learning curve" excuses has expired. He will have to build on what he has learned in his first year and actually start governing. He needs to hold his moderate, center line, and start giving the Paraguayan people tangible results. As we continue to support this fledgling democratic government and its well-intentioned (but inexperienced) president, we will need to keep our eyes wide open. END COMMENT.
Ayalde